Moderator Good day, everyone. On behalf of EFG Hermes, I welcome you to Alinma Bank Third Quarter Results Call. My name is Shabbir Malik. Management will first go over the presentation, and then we will open the call for questions and answers.

I will now hand the call over to Arwa Alshehri, the Head of Investor Relations. Arwa, please go ahead.

Arwa Thank you, Shabbir. Good day, everyone. Welcome and thank you for joining us for Alinma's earnings call for the third quarter of 2025. Before I take you through the call agenda, I'm glad and excited to announce that Alinma's management will be conducting a standalone call to launch the bank's upcoming five-year strategy. We will be distributing save the date emails for Alinma's 2030 strategy early next week.

Back to the call's agenda. Our MD and CEO, Mr. Abdullah AlKhalifa will begin by providing an overview of Alinma's performance and financial highlights, followed by the current strategy recap and the updates on the strategy financial KPIs. Followed by our CFO, Mr. Adel Abalkhail, who will be presenting a detailed financial performance up to September this year, ending with the guidance for the rest of the year. We'll make sure to have proper time to conclude with the Q&A session where we will be addressing your questions, along with our Deputy CEO, Mr. Saleh Alzumaie covering retail private and digital, and Chief Corporate Officer, Mr. Jameel AlHamdan.

With that, I will hand this over to you Abu Faisal.

Abdullah Thank you Arwa. Hello and welcome, everyone, for our earnings call. I'll start my presentation on slide 6, where our financing has grew in line with our guidance. Year to date 12% as well as 11% growth in customer deposits, more balanced growth, I would say, and total assets grew by 11% year to date, and our CASA, which is more important than just the growth of customer deposits, increased by 14% year to date.

Our revenue is up 7% year-on-year, and our net income increased by 9%. CASA represents now 53% of total customer deposits. The cost of income stands at 31.6% As far as the credit quality and capital, our NPL ratio is 1.20%, our coverage ratio is 158%, our NIMs is 3.46%, 24 basis point compared to the full year last year, and our ROA stands at 18.4%.

On slide 8, I'll give a quick reminder of the strategy. This is the last time I'm going to talk about 2025 strategy. As Arwa mentioned earlier, we're going to present, before the earnings call of Q4 we're going to present to the investors and the analysts our 2030 strategy. So, our current strategy today, as of today, which ends this year, basically the headline is to be the fastest and most convenient bank; to be number one in terms of net promoter score as a sign of quality of service that we provide our customers; and be number one employer of choice.

More details on the next slide, which happen to be number 9, shows more details. So, in terms of business, the three pillars for retail was focused on growing affluent and private business; focus on attracting the youth segments; offer the best customer experience and operation excellence. In corporate we have three main pillars there. We want to be a core bank for all segments, for our customers, not just large and project, but also mid corporates. That's an area that we focus to grow, and you'll see later on with the detailed presentation how much we grow mid corporates; develop high quality SME business, as well as focus on growing our trade and cash business.

Treasury, basically we want to be the core partner for our customers for putting all their hedging and investment needs; growing our FI business, as well as maintain a proper ALM, high quality ALM function. That, obviously, for the bank to achieve these targets, we needed to build digital factory to scale customer experience. We want to foster a culture of advanced analytics and decision making based on data and that we sit on. And, of course, cultural transformation to be able to attract and retain the best talent in the country.

Slide 10 will give you some flavor of what was achieved during Q3. We introduced travel and medical malpractice insurance policies online. We've also launched cash flow management tools for our customers. We've also introduced payment deferral products for certain retail customers as part of the CSR initiatives that we have.

On retail, we've opened three more branches. We've launched a special package for expat affluent, and we continue adaptation of our youth app and increasing the attractive new customers. Quarter to quarter growth in customer base is 47% in that application.

In corporate we launched Iz business, soft launch now. We finally got it. This is basically a solution or a product that we developed a digital attacker for micro and very small SMEs, all digital transaction including the credit engine. That is now soft launched, and will expand into it in the next few months. We've also done straight through processing for LG in our new e-trade system. We had overall growth in corporate assets of 15%. The one that I mentioned about mid corporates, we continue to have this very strong growth, 31% year to year growth.

Now on SMEs, also we had very good growth. They reason showed 6% as we've done some reclassification. There are some businesses under SME that was managed by the mid corporates, and the SME, the sector itself were imagine certain portfolio of their customers and obviously the one that we report here versus the one in our annual report following requirements of Central Bank are different, so we merge the two. That's why it shows only 6%, but it's actually higher than we reported before.

In Treasury, we launched $500 million sustainable AT1 Sukuk, as well as $500 million of senior Sukuk. And also, we established a new program for CDs and up to the end of Q3 we had issued $550 million.

On the next page, page 11, I just showed you some of the strategy impact on a year-on-year basis. On revolving credit card, we had a 33% increase. In auto loans we had 43% increase. In accounts opened digitally on boarded, from 88% last year to 95% this year. In corporate, project finance had a growth of 9% year-on-year. I think we mentioned this in the first half earnings call that most of the projects that we've approved are coming towards the second half more than the first half, and that's why up to end of Q3 is only 9%. SME, as I mentioned, the reason for the 6%, without this reclassification that would have been 18% year-on-year growth.

In mid-corporates, we had 31% growth, as I mentioned before. And the average yield on investments increased by four basis points, as well as cost of funding decreased by 27 basis points and exchange income we had 2% growth. We had solid, strong, one-off FX yield last year. If you normalize that, it comes to high single digit.

With that, I give the floor to our CFO, Adel, to take you through the detailed presentation. Thank you.

Adel

Thank you. Hello, everyone, and welcome again to our earnings call for the third quarter of this year. I will be starting with giving a bit more details on the financial performance. As Arwa said, that will be followed by the guidance, then I will leave the last thing for the Q&A's as usual.

Starting with slide number 13 on the balance sheet trend, we have seen a growth in total assets of 11% YTD, that was mainly driven by, as you can see in the graph here, 12% growth in financing. And also, we have seen 7% growth on investments. On the overall liabilities, we have seen the growth in total 10% YTD that was mainly driven by 11% increase in customer deposits. And as mentioned by the CEO earlier, 12% of financing versus 11% on deposits. It's a balance to growth between the financing and the deposits.

Moving on the next slide, slide number 14, on the P&L trend. The net income for the nine months for 2025 has grown 9% year-on-year, reaching 4.673 million from 7% growth in the operating income. And also the nine months funded income, we've seen increase year in year 8% and also we have seen a 4% growth on the non-funded income. Impairments year on year were lower by 4% and the overall net income, as mentioned earlier, is 9%. You can see in the bottom right graph the composition of the operating income with the funded income remains the major there, which is obvious almost 80%.

Moving to the next slide, just shedding some light on the financing. So, we've seen retail finance increase in 10% YTD from December that was driven primarily by the robust growth in the auto financing. We've seen also the growth continued to be in the mortgage as well. And also, we have seen continuous growth on the other retail financing.

Now corporate financing also has grown 12% YTD from December, and this was also driven by 32% growth in mid-corporates along with the 5% growth in SMEs. And also, I'm referring to the note given by the CEO and the SMEs giving the reclassification, but the actual growth is much higher than that. So, the overall gross financing compromise of 76% corporate financing as of end of September this year, 24% relates to retail lending.

If you can see in the top right graph, the composition of the financing as end of the quarter, 65% would be for large corporate and project financing. I would say project finance and large corporate is also half of that. 6% is mid-corporate financing as part of the overall portfolio, and 5% SMEs and 24% of the overall retail split, 12% each between the mortgage financing and the other retail consumer financing.

Moving to the next slide on the deposits, slide number 16, we have seen deposits rose by 11% during the nine months. That was mainly driven by the growth in CASA and time deposits. CASA growth was 14% during the 9 months. We've seen also 9% growth in time deposits. CASA deposits represent 52.8% of the overall total deposits. That's an increase of 147 basis points from where we were the same period. Total deposits compromise of 67% that is managed by retail and the remaining 33% is management of the corporate business.

Moving into the income from financing, the funded income slide 17. So gross funded income in the 9 months has increased 8%, as you can see, year-on-year, reaching 12.8 billion. This is coming from a 22% increase in investment income, and we've seen a 6% increase on the financing income. So, you can see in the bottom left graph the net profit margin on the NIMs movement from same period last year, comparing the 9 months versus the 9 months of last year. We stand at 3.46 that was coming from slight improvement investment yield, but also we have seen 57 base points drop in financing yield. However, the drop in cost of funding was much lower at 27%; hence, we have seen the YTD NIMs as YTD is growing from what it was in the first half at 3.52 standing at 3.46%.

If we move to the next slide, slide 18, on the other income or the non-funded income, the non-funded income for the 9 months has increased 4% reaching by end of December 1.8 billion. That was contributed by the improvement on the fees from banking services, and also we have seen an improvement in the other income by 27 million. So, the composition is, as you can see in the bottom left graph, the composition of the fees from banking services, which is totaling 1.25 billion in the first 9 months, 37% is relating to the fund management. We have 22% that is in the other income. So, we have seen also the brokerage fees becoming an 8% as a composition of the overall fees from banking services.

Moving to the OPEX, the next slide, which is slide 19 and the operating expenses. Operating expenses growth is 9% year on year, reaching 2.7 billion for the first 9 months of this year. So personal costs compromise the majority of the operating expenses, along with the G&As. As you can see in the center of the graph, we've seen in a sequential basis a 2% growth in the opex versus the previous quarter, cost to income ratio standing at 31.6% versus where we were same period, 31% in September the previous year.

If we move to the next slide, which is the slide on the impairment, slide number 20, we have seen the impairment charge for the 9 months for financing has decreased by 6% year-on-year. The total charge for the first 9 months on a net basis is 747 million. Cost of risk for the 9 months has improved by 10 basis points year-on-year, standing at 46 basis points. The same period of last year, we were at 56 basis points cost of risk.

The bottom left graph just shows the composition of the environment allowance totaling 4.3 billion. 88% of that goes to the corporates, 12% of the overall impairment as a balance is for the retail financing.

Moving to the NBL and NBL coverage ratio, slide number 21. NBL ratio has increased by 42 basis points year-on-year, standing at 1.2% in the third quarter of this year. NBL coverage ratio decreased by 87 points per 1000 year-on-year standing at 158.2. We have seen a slight drop in the stage three coverage, standing at 66.4% versus 70.4% in the previous quarter. And also, we have seen a slight drop in the stage two coverage given certain right offs that was happening on one of the accounts.

On the capitalization, slide number 22, we remain healthy. Capitalization stands at 19.2 with CEOs referred to the issuance of the capital instruments that were issued during Q3 at $1 billion. The ROE also is standing at 18.4% and also ROA is at 2.1%.

The bottom of the slide is in the prudential ratios. It remains very healthy, very strong, 125% LCR is well above the regulatory minimum. LDR is also at 80.1% and that's, as you can see, as well below the regulatory maximum there. NSFR also has improved given the longer funding that we have mobilized during the first 9 months, standing at 113.1%, well above the regulatory minimum.

I'll move now to the next section on the outlook and the guidance for the remaining of this year. We did not change any of the guidance's that were provided in the previous quarter, so the financing growth of 12% YTD, we're keeping the guidance at mid-teens for the full year. The guidance for net profit margin remains unchanged. We revised that back in Q2 standing at 3.46, that's 27 basis points year on year, but we're keeping the guidance as minus 10 to minus 20 basis points for the full year.

Cost income ratio remained below as a guidance for the full year. It remains below 31%. Return on equity remains above 18.5% for the full year. And also, we are keeping the cost of risk guidance unchanged between 50 to 40 basis points. And also, the overall capitalization, we have seen improvement from Q2 given the capital instruments that were issued, standing at Tier 1 and Tier 2 CAR for pillar 1 risks at 19.2% and we are keeping also the guidance unchanged to be 19% to 18%.

With that, I'll hand it over back to the operator for the questions. Thank you very much.

Shabbir Thank you, Adel, for the presentation. Thank you to the rest of the management team as well. We'll now open the floor for Q&A. Kindly note that in today's call, we'll only take audio questions. May I also request the audience to announce their name and the company name before asking the question.

If you would like to ask a question, please raise your hand. As we wait for the questions to be logged in, maybe I'll start off with the first question. In terms of your margin, at least in the presentation it suggests that there was a NIM compression quarter on quarter, whereas if I look at your NII growth Q on Q it was pretty decent. So just want to check that, what is driving that NIM compression quarter on quarter?

And secondly, a question on non-funded income. That looks a bit weak relative to the sector. So if you can give us some thoughts on your non-funded income trends as well.

Abdullah Thank you. As far as the NIMs contraction, I mean, I've seen some analyst reports about suggesting that we're either flat. We're actually low about three basis points, driven mainly by higher cost of funding in Q3 versus Q2. The way we calculate it, just for clarity, we take interest expense and divide it by average earning assets, as we do for interest income divided by average earning assets, and the difference is the NIMs. So, for us, obviously we have daily averages, so we have three much more accurate averages than the outsider may see. But for us it's driven mainly by higher cost of funding. As you recall, there have been obviously more intense competition on deposits and that has driven the costs higher despite cyber or the benchmark itself actually reduce quarter over quarter.

We've also managed to improve our gross income by about four basis points. So, the difference between seven and four is about three basis points reduction in our NIMs. And that is equivalent to 24 basis points below the full year last year. We kept the guidance as 10 to 20, we believe this in Q4 that 24 basis point will be lower and closer to that range.

The other question was about non-funded income. Adel, I don't have the details in front of me directly, but –

Adel Yes, I can take that Abu Faisal. If you look at the non-funded income for Q3 specifically, it's trending in total, as you mentioned, maybe lower than what you've seen in previous quarters. But if you look at the fees from banking services as a net, and this is the core of the fees from banking services, as we mentioned in Q2 there was more one-offs there in the fees from banking services. That was part of our ongoing improvement on our operating model with the main card scheme. So, these actually did not happen this quarter, but if you look at quarter on quarter in total, then on yield we're looking into the fair valuation of home investments, and this has actually dropped during Q3. That's the nature of the business. We've seen the volatility before on this item.

And also the FX income, we have seen a drop also during Q3 that would be mainly explained by the lower volumes that we have seen during Q3 versus the previous quarter. So hopefully that'll help.

Shabbir Also, when I look at the nine month trend, I think you're trending at about high single digit. I think some of the banks have seen double digit non-interest income growth. So anything specific that you want to highlight on that front?

Adel Sure. The nine months versus nine months, there's a drop, of course, if we take it to the YTD. We have seen also improvements, especially in the FX income, if you look at it in the certain quarters of last year, but also we've seen drop in the card business as well versus we've seen that back in Q3 specifically, and also Q2 of last year. It remains maybe below the averages. This is something we'll continue to focus on strategically. And I think the part of that, as I mentioned, will always be impacted of the big investments and the valuation that we do from quarter to quarter in certain big investments that we have.

Shabbir Thank you. We now open the floor for the audience. The first question comes from the line of Olga. just bear with me for a second. Okay, let me try someone else. The next question is from the line of John. Let me try Olga one more time. Olga, can you hear us?

Olga Thank you, yes. Thank you, perfect. I can hear you. Hope you can hear me as well.

Thank you for the Q&A and for the presentation. Several questions from my side. One is on capital and on dividends. Why do you keep paying the same dividend despite higher capital requirements and one of the lowest CET1 ratios in the banking sector? And also as a part of this question, how far are you from your minimum pillar one/pillar two requirements? That's number one.

Number two is on asset quality. I see that your stage two coverage went down quarter over quarter. Stage three coverage down. What makes you comfortable to do so in the current environment? That's question number two.

And question number three, we did notice there was some expansion of asset yields quarter over quarter. What helped you to do so? And do I understand correctly that your full year margin guidance suggests that you believe margin will go up in the fourth quarter? Thank you.

Abdullah Thank you, Olga. Now as far as the dividends, I think we did announce obviously three quarters dividends. Payout ratio was in the range of 47%, roughly. And the question is, why are we paying dividends, despite the fact that our CET1 is one of the lowest in Saudi, among the Saudi banks? I am not confirming or giving you a heads up, but we've done similar patterns. I think back two years ago, when we paid on that range and in Q4 we actually did not pay dividends, so it could happen. I would not say it will, but it could happen. That's another way.

At stage three, I think the change is stage two, stage three, there was some movement from stage two, stage three. I think mainly the write off that took place from stage three. And, of course, when you write off something, it's usually 100% coverage, so that disappears. Obviously, overall rate would be lower, but it's aligned with the industry average. And we want to continue to have this approach of being prudent and conservative in terms of taking the cost of risk, and that's why, yes, we're declining cost of risk year-on-year for the over the last years, but we've always been conservative, and we're higher than the market average as far as the cost of risk.

On the expansion on the asset, this is the thing that should have been done, you know, from maybe second quarter, second half of last year when we saw cost of funding creeping up. Banks should have normally, at that time, increased their pricing or passed on that incremental cost to their clients. We were pushing as hard as we can, but obviously some good clients that we have, very good ancillary business where we could not push the price higher, but we continued our efforts, and that helped.

And the same time also with rates going down, and we have a cash flow edge that also helps, we also managed to get good investments. That's why you see investment yields improve year-on-year. So, I think all these combinations, higher pricing on all segments as much as possible, as much as you can, we're not alone in the market, so we have to compete. But I think probably I could say that in Q3, we see less aggressive pricing in the corporate side, and that could help us improve on our margin.

Olga Thank you. And for the quarter margin, does your guidance suggest you expect pick up by the end of year?

Abdullah True. I mean, obviously, if we're saying that compared to the full year last year, we're 24 basis points below and we keep the guidance of 10 to 20, that is clearly an indication that our NIMs will improve in Q4.

Olga Driven by a CTL?

Abdullah No. I think we'll be more of the funding cost, but asset yield will continue to push higher. We managed to get four basis point improvements, but in terms of the cost of funding, then certainly that would be, especially with the expected rate cuts this year, and hopefully we saw a bit of a smoother growth now on assets in the industry versus aggressive growth, so that can help on terms of the competition in deposits.

Olga Thank you very much. Thank you.

Shabbir Thank you, Olga. We'll take the next question. This is from the line of John. John, your line should be open. John, can you hear us? Maybe I'll come back to John later. Let's try the next one. This is from the line of Aybek.

Aybek Yes. Hi, can you hear me okay?

Shabbir Yes, please go ahead. Yes.

Aybek Alright, thank you. So thank you for the conference call. A couple of questions from me, right? The first one is, can you discuss your exposure to REIT products, real estate investment trusts? I believe you have some through Alinma Capital. And related to that, what are your thoughts around the real estate price outlook, how it may impact the commercial real estate sector and your overall kind of exposure to commercial real estate, if you can cover that, direct and indirect through things like REIT products? That's the first question.

Secondly, can you elaborate on how you think about your growth outlook and appetite for specific risk assets, in particular project finance, in view of this countercyclical buffer coming in from next year? So, project finance is a very capital intensive segment, very high risk weighting there. Do you think you will deprioritize project finance in view of this countercyclical buffer coming in? That's the second question.

And thirdly, in the third quarter you launched your $2 billion Sukuk program. I can see that the cost of your first Sukuk that you issued is about 4.9%. How does it compare to the marginal cost of funds, let's say, in Saudi riyal time deposits? Is that giving you lower funding costs? And you have quite a lot of headroom to lean on the Sukuk program. So, that's the third question. Thank you.

Abdullah Thank you, Aybek. I'll leave the second point on the capital charge on project finance to Adel. And we hope to excuse us, because Adel is in a different time zone.

So on the real estate exposure, I think you're referring to the recent regulation changes on white land taxes and so on. Honestly, I see this or we see this in a positive way, because obviously the supply was limited, affordability was impacted for mortgage business, which had significant growth over the last five-years, or a slowdown because of affordability impact because of the prices going up for real estate, but as well as the higher interest rate. So a combination of these two factors has impacted affordability.

Now with this white land tax in Riyadh, this is applicable to Riyadh, by the way, mainly, the changes that happened recently, that should increase supply. That should incentify owners of these white lands to develop them, and with higher supply would mean better affordability, more projects to be developed. As well as coupled with the lower interest rates going forward, it should help affordability.

In terms of our exposure, typically we take real estate as not the main source of repayment. We look at the source of repayment first, real estate taking the additional collaterals, and we don't believe that it's a significant threat to us in terms of significant lower of value. I think there would be some deduction in value, but I don't think it's going to be material enough to really impact us.

The second point about – well Adel, maybe take the second point, please?

Adel Sure. So I'll take the second question on the risk weighted assets. If you look at the project financing, we've always mentioned that project financing would remain a driver on the growth. Of course, the risk-weighted assets optimization is an ongoing exercise. If you recall, Aybek, in Q1 we had seen our risk density went down as we started to recognize certain eligible equity collaterals there, which reduces the risk weighted assets from a credit perspective. But also we have to add to that that the growth is not only specifically in project financing. Of course, the volume is there. It's just the growth we have seen in mortgage, for example, which trigger based on their LTVs, as you know, lower credit risk weighting charge, but also the growth in SMEs that also are much lower than you would otherwise see on the project financing. But also project financing itself, as you know, it's split within Basel into the type of projects, and to the level of equality and the level of whether being operational or not operational. So, we'll continue to be selective in that, as we have been always doing so.

Now, if you look at the overall capital requirements, and as you mentioned the CCYB, we're looking at the total CAR and specifically, if you look at this quarter, for example, the market risk went down from Q2 that was specifically for the offload that we did for part of our equity portfolio. As you know, this triggers more than 160% charges there, so that has reduced sequentially this quarter. So, the risk weighted assets optimization overall is an ongoing exercise that we review. So, there are many other factors, not specifically one business line, but you could see other improvements on other business lines, not specifically also in credit, but could be also on the market risk side.

On the other point, on the 2 billion programs, it's around 4.9 that was the senior unsecured. It did not as pricing went off the market. I mean, these are more spread that we pay over in five-years US Treasuries, but it will cut specifically this percentage, if you compare it to the Saudi real time deposits or the deposits you take, usually top on the gap, it is lower. It is lower. It is fixed for five-years, but it's lower if you compare it, as you mentioned, to the Saudi real normal time deposits.

Abdullah Also, if I may add, Aybek, the Sukuk itself will carry higher weight for LDR, because the five-year gives us stability, better asset liability mismatch, and it reduces the level of need for us to continue on the short term. Because, obviously, time deposit short term continues every quarter, every month you have actually maturity, and you have to replace, so that eases off the pressure on that.

Aybek Thank you.

Shabbir Thank you. We'll now move to the next question. The next question is from the line of Mahmet. Can you unmute your line and go ahead with your question?

Mahmet Good afternoon. Thanks very much for taking my questions. I have just two, please. One, I appreciate you're still working on the new strategy, so this question may be a bit unfair, a bit too early, but you know how impatient we are, so I was just wondering if there is any early flavor in terms of the focus areas of the new strategy that you can share with us? Any specific areas that you may want to address, considering where you stand today?

And my second question was actually a follow up on the RWA density. It's been actually quite remarkable, the decrease in the density so far year to date, and I've noticed another, I think, two points or so of a decrease this quarter. So I was just wondering if there were any specific actions you took this quarter similar to what you did in the first quarter? And how we should think about it into the fourth quarter and maybe the next few quarters. Also, particularly because you mentioned we should see a little bit of a pickup in project finance growth coming into the year end. Thanks very much.

Abdullah Thank you. I think I'll take the first point. Adel will handle the second one on balance sheet.

For 2030, as I mentioned, we will have a detailed presentation to the investors early on in January, sometime in January before the earnings call for Q4. But in terms of some flavor or at least teaser on that strategy is basically AI, customer centricity and also adjacency businesses. So that's all I can say now, and we'll give details in the presentation, as I mentioned. Adel.

Adel Sure. On the risk weighted assets and the risk density, as you said, and we mentioned that actually following our Q4 results of last year, that the optimal risk weighted assets optimization overall is an ongoing exercise, and we have seen the results on the three quarters of this year so far. I have to just maybe, because the second point to the project financing, if you look at the project financing, it's actually the way we're lending, because there is always a minimum requirements of the rate that also takes the required capital charges for every exposure and lending that we do, which is part of the considerations, both on the prices, pricing and the profitability of the account to the overall. So this is an ongoing, it's going to continue. It did not start only because of the CCYB. It's something that we always want to optimize and be efficient in how we see our risk weighted assets look like.

Of course, the requirements are there. We, as I mentioned, there are other line of businesses that would trigger much less taking into, for example, yes, of course, new growth in mortgages, but you would have an existing portfolio that would trigger lower capital charge because of the exist of the lower LTVs that moves forward. I know the amount might not be that significant, but I all I can say is it's ongoing exercise. We've been doing that, and we've seen the results.

And also looking not only purely on the credit side, it's the main one, it just may be also looking at the other pillar one risks being operational or the market risks as I mentioned in the previous question.

Mahmet Okay, great. Thanks very much.

Shabbir Thank you very much. We'll move to the next question. This is from the line of Rahul Rajan.

Rahul Hi, am I audible?

Shabbir Yes. Please go ahead, Rahul.

Rahul Thank you for the opportunity. A couple of quick questions. One is on the financing side, the retail loan growth have slowed in the third quarter at around 2.5% to 4% slower than previous quarters. So, anything that you would like to throw light on as to what's led to the slower loan growth in retail? That's number one.

And number two, you mentioned that there was a write off in this quarter. What's the nature of the write off? Is it any specific account, any specific industry it pertains to? These would be my two questions. Thank you.

Abdullah Can you repeat the second point? Sorry, I missed it.

Rahul Yes. The second one is on write offs. You mentioned that there were some write offs in this quarter. So, could you shed some light as to which industry it pertains to? Is it any account specific or any specific industries where you start seeing some kind of stress?

Abdullah Okay, I'll handle the second part. My colleague Saleh will talk about the first one, about the retail loan growth.

Write off is a mix of multiple segments. I mean, there are some contractors, there are some in SMEs, more write-offs in SMEs, more write-off in retail. So it's a mix, it's not specific industries that have all the write offs there. That's what happened and that's a normal business that we do. We follow certain strategies as far as write off in terms of days past dues and so on, and so that's nothing, that's a normal process that we do. It's just the volume may go up or go down based on how many of those accounts, past due accounts have passed certain threshold in terms of number of past dues.

Saleh?

Saleh And the overall retail portfolio, we've seen an increase. You know, feasibility is there, and people are expecting some regulation will be issued regarding the mortgage, the majority of our sales in mortgage. Again, our strategy since the beginning is that we didn't go into a price competition, so we need to maintain certain yields on our portfolio. But we do believe, after people know that going on after this white land tax, things will pick up in the right directions. And we are sure that we'll be achieving our KPIs for this year and the right yield that will make us having a very healthy portfolio.

Rahul Got it. Sorry, just a couple of quick follow ups. When you mentioned on the last point on people who are expecting some kind of regulatory change, which loan growth, are you referring to the white land related regulatory change, or the capping of rentals in Riyad? Is that what you referring to?

Saleh Yes.

Rahul Okay, clear. And sorry, if I can just add one more question here. On the asset quality front, coverage has been declining, although it is still healthy, probably higher than average. How do you see coverage going forward? Are these comfortable levels? Would you want to bring that back up to historical averages? Thank you.

Abdullah As I mentioned multiple times, I think because of my many communications with investors and analysts, we feel comfortable at 150 or above. This is something that may increase to 170, 180. Sometimes it's timing differences, because the write off was coming in. The write off comes in, certainly drags it down, but we're comfortable at 150 and above, and that's the level that we aspire to. If it goes higher, it's not that significant for us as a ratio. Perhaps it goes significantly below 150, we're not comfortable with that. So, the floor for us as the management and as a boards for the bank is at 150.

Rahul Thank you.

Shabbir Thank you, Rahul. We'll move to the next question. Just before I do that, just a reminder to everyone to please announce their name and company name before they ask a question. The next question is from the line of Nauman Khan. Please go ahead.

Nauman Thank you. Can you hear me?

Shabbir Yes, please go ahead.

Nauman This is Nauman Khan from SNB Capital. I have just two short questions. One is about the dividend policy, and the other is about the capital, given the land fees that were imposed, implication of the capital. One is, given that there is a countercyclical buffer that will be increased by 100 basis points, and this was referred to the last call as well. And then there's a 75 basis point impact of IRRBB, the first one is on the CET1. So, is there any change in the dividend policy that the bank is looking for just to prop up the capital? Or will you just do it through other capital or risk weighted amortization or optimization? This is one question.

The other is, given that the decent decline, or, for example, the land reform that has happened, I think you've talked about it as well, it is definitely positive for the overall mortgage and overall development of the land market, but as well as it has somewhat of a dilution impact on the prices as well. The prices have corrected slightly, so given that you have improved your risk weighted average by including the collateral values of the prices well, can we expect that this move may have a negative impact on the risk weighted assets going forward as well, and that may impact the capital requirements going forward, capital ratios going forward?

Abdullah On capital and dividends, I think I already addressed that point. In our dividends policy, we wanted to maintain at least 50% of our annual income every year. Naturally, what we see the need for lower payout ratios, and I've been very clear that we can go for lower payouts. I know some investors and some analysts mentioned that we have not actually lowered the payout ratio over the last three quarters, first quarter up to third quarter. But I remind others, I mean, there is still one more quarter to go. So the possibility of lower, and I expect it to be highly possible, to be lower payout ratio. How much lower? depends obviously on the discussion with the board and regulator at the end, but that's an option. We still have an option to do that. And I think for next year then certainly with additional countercyclical requirements, it's not necessarily has to be CET1. It could be also the tool that we are issuing, we've been issuing capital instruments, whether it's Tier 1 or the intention to issue maybe other capital instruments in the future can allow us to continue to grow with the level of capital required. But it's a tool that we can adjust for.

Adel, on the other part, please.

Adel Can you repeat the question?

Nauman In simple terms, these land reform announcements that have been announced over the last one month or two months has a negative impact on the land prices in Riyadh. So given you have a high exposure to real estate and the collateral that has been placed according to it, do you think that could have anything implication for ECL, or, for that matter, it could have an implication for the capital risk weighted assets as well that may adversely affect them as well?

Adel So look at this part, what happens as far as the business demand, and how this could be positive on having more capacity now for people to demand more mortgages, that's the business side. But as far as collaterals, as you know, the mortgage portfolio is not really being revalued. As far as the commercial side and also the real estate holds on the funds, it's always been revalued at a minimum every two years. It could be one year, could be six months, based on the annual reviews. And we haven't seen any significant drop on the valuations there that could trigger more ECL because of the lower coverages there.

You need to think about also most of the real estate hold, it's not really all of them in the Riyadh region. They're distributed across the country. And these are commercial lands in very prime locations, so we didn't really expect a significant deterioration of the value all of a sudden for many lands at one point in time. But we have been doing the revaluation, and we haven't seen anything significant so far.

Nauman And that will not have any implications or major implications for capital as well, right?

Adel Well, as you know, for capital, because risk weighted assets for real estates are not eligible collateral that you deduct from the exposure for the purpose of calculating the risk weighted assets. So, it's regardless of the valuation to collateral, as far as capital, because it's not part of the calculation in the first place. So, if you have land, you're calculating the exposure, you are not letting that. You would have certain legible equities, but you wouldn't include real estate. So, the revaluation, as far as capital, doesn't really matter.

Nauman Thank you. Thanks a lot. Thanks for the clarity.

Shabbir Thank you. We'll take a question from the line of Murad Ansari. Murad, your line should be open.

Murad Yes. Thank you for the call. Just a couple of questions around your guidance. So, on loan growth, you've delivered very steady growth throughout the first three quarters. It's been up around 7 billion expansion like clockwork every quarter over the past three. There are a number of your peers have been talking about, and I think you also mentioned about the risks of corporate repayments that come through in the fourth quarter. So I just wanted to get your thoughts on the guidance, emitting guidance would suggest another 7 billion, 7.5 billion real expansion in the loan book in the fourth quarter. Could there be risks from corporate repayments to this mid-teens growth? So that's one.

The other one is on NIMs. So, historically, we've seen, and I think you've been talking about this since last third quarter, fourth quarter last year as well, that funding costs tend to rise towards the end of the year. There's obviously a lot of competition that kind of comes in. So how does that impact your view or expectations on NIM improvement in the fourth quarter?

And finally, I just wanted to pick on your comments that you highlighted that there's more smoother growth, which kind of suggests that the competition level, at least on the pricing side, has kind of subsided. You also talked about improvement in asset yields as you've continued to push and you've been talking about this since last year. Is it fair to assume that with rising capital requirements adding on to the already existing liquidity pressures that this is basically the straw that breaks the camel's back, which is that banks now become a lot more disciplined in pricing loans going into 2026? Thank you.

Abdullah Thank you.

Jameel The growth of the assets as well, if it's going to be impacted with the repayment, there is a normal trend of the repayment that is always covered with the volume of pipeline of business that was established early during the year, so we didn't expect any major repayment for the remaining of the years.

Abdullah The second question about NIMs and how are we improving it, as our guidance suggests, is basically I touched on that earlier on, there's going to be further reduction cost of funding. Because in one hand, the loan growth in the industry is a bit slower, softer, I would say, expected to be softer in Q4, which reduces the level of competition on deposit. Not eliminated, but a bit reduction on that. Plus rate cuts are expected to come. I think in today, and something one more rate cuts in December. As well as residual pricing that I talked about, the ability to reprice some of the exposure that we have when the new loans, or on annual review for certain loans, we've actually managed to increase pricing on that. So, a combination of those would help.

Competition level, I think also I touched on this one. I think aggressive pricing is not actually eliminated, but it's much lower compared to at least the first half. I would say in Q3 our experience has been a lower level of intensive or aggressive pricing especially on large corporates compared to the first half this year.

Murad And do you expect these capital requirements now also to be a big factor in terms of how banks price loans going into next year? Do you think that brings in a little bit more discipline or it's still too early to say?

Abdullah I think it plays a part, for sure, in terms of being more disciplined in terms of pricing, I think that's one of the important factors, I'm sure.

Murad Thank you.

Shabbir Thank you, Murad. Unfortunately, the time has come to an end. I'll now hand the call back to Arwa for any concluding remarks.

Arwa Thank you, Shabbir. Thank you everyone for your time. Please reach out if you have any further questions, and you will receive a Save the Date email for our upcoming strategy call early next week. Thank you so much.

Shabbir Thank you, everyone. Have a nice evening.